

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Sen. Rev. & Tax Comm. Analyst: Jeani Brent Bill Number: SB 1229

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 08/16/1999

Attorney: Patrick Kusiak Sponsor: Franchise Tax Board

**SUBJECT:** Excess SDI/Federal Adjs./AMT Depr./Voly Con/Water's Edge/Sub.  
Housing/Unitary Div./Returns/Commercial Domicile/Head of Household/  
1998 Leg. Clean Up/Code Maintenance/Auto. Extension/Revivor Fee/Exempt Org

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended June 30, 1999.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.
- ☐ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.
- ☒ REMAINDER OF PREVIOUS ANALYSES OF BILL AS AMENDED April 12, 1999, and June 30, 1999, STILL APPLY.
- OTHER - See comments below.

### SUMMARY OF BILL

This bill, sponsored by the Franchise Tax Board, would make the following changes:

1. Retain the program to refund excess state disability insurance through the tax return while ensuring that taxpayers who fail to claim the credit on their return still would be identified as quickly as possible to receive a refund of their excess contributions.
2. Make several changes relating to federal adjustments regarding defining the final federal determination date and requirements for taxpayers to notify the department of any federal changes to their tax return.
3. Make a technical correction to the alternative minimum tax (AMT) provisions to refer to the depreciation provisions under the Bank and Corporation Tax Law (B&CTL) rather than those under the Internal Revenue Code (IRC).
4. Clear up inconsistencies regarding voluntary contribution funds and delete redundant and unnecessary language.
5. Specify that for purposes of determining the correct amount of tax for water's-edge electors, the presumption of correctness attaches to all federal audit determinations, including determinations made at the audit, appeals, and/or competent authority levels.
6. Clarify that substandard housing could be housing that is either (1) occupied, or (2) unoccupied or abandoned.
7. Eliminate obsolete language regarding pending litigation related to the provision allowing elimination from income of certain unitary corporation intercompany dividends.
8. Eliminate ambiguity with respect to the due date for filing a tax return by requiring corporate taxpayers to file their income tax return "on or before the 15<sup>th</sup> day of the third month following the close of its income year."
9. Remove the commercial domicile restriction from Revenue and Taxation Code (R&TC) Section 24410, permitting all corporations, regardless of where

### Board Position:

|                                       |                              |                                  |
|---------------------------------------|------------------------------|----------------------------------|
| <input checked="" type="checkbox"/> S | <input type="checkbox"/> NA  | <input type="checkbox"/> NP      |
| <input type="checkbox"/> SA           | <input type="checkbox"/> O   | <input type="checkbox"/> NAR     |
| <input type="checkbox"/> N            | <input type="checkbox"/> OUA | <input type="checkbox"/> PENDING |

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Date

**Johnnie Lou Rosas**

**8/30/1999**

commercially domiciled, to deduct dividends received from an insurance company subsidiary operating in California and subject to the gross premiums tax contingent upon enactment of SB1125.

10. Specify that a taxpayer that uses the Head of Household (HOH) filing status or surviving spouse filing status cannot claim the dependent parent credit.
11. Clean up technical issues made necessary by the enactment of various bills affecting the R&TC in the 1998 legislative session.
12. General maintenance of the R&TC, including repealing obsolete provisions, updating cross-references, and making consistent references to federal law.
13. Clarify that payment of estimated tax by corporations and exempt organizations is not a prerequisite for receiving an extension of time to file a return.
14. Clarify that exempt organizations subject to tax on unrelated business taxable income are required to make estimated tax payments.
15. Eliminate the requirement for the revivor fee for exempt organizations and require all exempt organizations seeking revivor to submit a new exemption application when requested by the department.
16. Specify that an organization's exempt status may be revoked for failure to file any return required or failure to pay any tax due and exempt status may be reestablished only upon the filing of all returns or the payment of all taxes due.

#### SUMMARY OF AMENDMENT

The August 16, 1999, amendments made the following changes:

- A. Removed provisions that would have allowed nonresidents to prorate the deduction for alimony payments in the same manner as the nonresident tax is prorated. This provision has been added to AB 1208.
- B. Modified the bill to use the law as it exists after the enactment earlier this year of AB 10 (Stats. 1999, Ch. 64). This modification would ensure that this bill would not chapter out the changes made to the minimum franchise tax by AB 10.
- C. Removed code maintenance changes that already are contained in the department's conformity bill, AB 1208, and provided language to double-join to AB 1208.
- D. Provided operative date language for the manufacturer's investment credit provisions in this bill to ensure that this bill does not conflict with AB 473.
- E. Provided language to double-join this bill with SB 1125.

Except for the discussion of the nonresident alimony provisions, which no longer apply, and the items discussed in this analysis, the department's analyses of the bill as amended April 12, 1999, and June 30, 1999, still apply.

REVENUE ESTIMATE

Based on data and assumptions discussed in prior analyses, revenue losses from this bill are estimated to be as follows:

| Estimated Revenue Impact of SB 1229<br>Amended August 16, 1999<br>(In \$Millions) |                                       |         |         |         |
|---|---------------------------------------|---------|---------|---------|
|   |                                       | 1999/00 | 2000/01 | 2001/02 |
| 1.  | Excess SDI                            | *       | *       | *       |
| 2.  | Fed. Adjustments/Corrected Tax Return | *       | *       | *       |
| 3.  | AMT Depreciation                      | *       | *       | *       |
| 4.  | Voluntary Contributions               | *       | *       | *       |
| 5.  | Water's Edge                          | **      | **      | **      |
| 6.  | Substandard Housing                   | *       | *       | *       |
| 7.  | Unitary Corp. Intercompany Dividends  | *       | *       | *       |
| 8.  | Due Date for Tax Returns              | *       | *       | *       |
| 9.  | Commercial Domicile                   | ***     | ***     | ***     |
| 10.   | Dependent Parent Credit               | -Negl.  | -Negl.  | -Negl.  |
| 11.   | 1998 Legislation Clean Up             | *       | *       | *       |
| 12.   | Code Maintenance                      | *       | *       | *       |
| 13.   | Extensions Of Time To File Returns    | *       | *       | *       |
| 14.   | Exempt Orgs/Payment Of Estimated Tax  | *       | *       | *       |
| 15.   | Revivor Fees                          | -Negl.  | -Negl.  | -Negl.  |
| 16.   | Revocation Of Exempt Status           | +Negl.  | +Negl.  | +Negl.  |

\* = No revenue effect  
\*\* = No identifiable revenue impact  
\*\*\* = Revenue losses cannot be quantified  
-Negl. = Negligible (less than \$250,000) revenue loss  
+Negl. = Negligible (less than \$250,000) revenue gain

BOARD POSITION

Support.

The Franchise Tax Board voted at various meetings to sponsor the legislative proposals included in this bill.